



Attachment 3

U.S. Trade and Development Agency
Budget Preparation Guidelines
For Submission of Definitional Mission/Desk Study Reports

Introduction

The United States Trade and Development Agency (USTDA) promotes U.S. exports and assists in the creation of jobs for Americans by helping U.S. companies pursue overseas business opportunities. To meet this chartered responsibility, USTDA is involved in a multitude of activities. These include feasibility studies, reverse trade missions, training grants and other forms of technical assistance. Our principal activity is the funding of feasibility studies, which are often a prerequisite to country loans from international lending institutions such as the World Bank and other export assistance agencies such as the Export-Import Bank of the United States.

USTDA is dependent on outside consultants to help us meet our mission. Contracted consultants participate in the performance of Definitional Missions and Desk Studies to determine the viability of major infrastructure projects in developing and middle income countries. Definitional Missions and Desk Studies precede feasibility studies. A Definitional Mission is more extensive than a Desk Study and involves overseas travel. A Desk Study is not as broad or as detailed as a Definitional Mission and often focuses on the financing of the project. These studies are designed to review and make evaluation of the following factors:

1. Nature of the project
2. Priority of the host government
3. Likely total cost
4. Likelihood of project financing
5. Need for a feasibility study
6. Scope of work and budget for the study
7. Environmental issues for the proposed project
8. U.S. export potential
9. Expected impact on U.S. jobs
10. Potential for U.S. companies to compete for the procurement of goods and services for the project

If the Definitional Mission or the Desk Study indicates the project is viable from a U.S. export standpoint and consistent with the USTDA mission, the agency will – within budget limitations – grant funds to the host foreign country project sponsor. This project sponsor, in turn, must contract with an American firm to complete the feasibility study. Feasibility studies on major infrastructure projects are designed to provide American firms with market entry and exposure. The studies are also designed to advise the host country about U.S. equipment and services that meet the specifications for the project. A desired outcome of this process would be substantial U.S. technology and service involvement in the project.

The USTDA mission and methodology are unique in that they are dependent upon the expertise of contractors and technical consultants to provide information crucial to USTDA's decision making process. It is therefore incumbent on USTDA to ensure effective and efficient utilization of our resources. In furtherance of this, the agency emphasizes cogent financial analysis, particularly in the preparation of budgets for any of its funded studies or reviews.

These guidelines are designed to provide assistance in the preparation and review of budgets – principally for feasibility studies. As was noted above, the responsibility for developing such budgets lies with Definitional Mission and Desk Study contractors.

It should be noted that there are no hard and fast rules for developing budgets given the natural variations among prospective projects. This handbook contains suggestions regarding the concepts of reasonableness and appropriateness of items and amounts. It will be incumbent upon those preparing Definitional Missions and Desk Studies to include with the budget estimates sufficient supporting information to enable reviewers to evaluate these concepts. It is suggested that if such information is lacking, it may evidence failure of the consultant in adhering to the terms of the contract with USTDA.

Budget Concepts

A budget is a spending plan. It is intended to identify all of the resources required (personnel and funds) for a specified period of time in order to complete a project activity. Budgeted amounts represent estimated costs. They may also represent a ceiling on costs, either in total or broken down by categories of spending. Generally, the organization providing the funds will set spending terms and conditions.

USTDA intends to pay reasonable and appropriate amounts for feasibility studies and other services based on predetermined budgets. As such, the budget development task that is part of the Definitional Mission or Desk Study is critical. It will, under normal circumstances, be the responsibility of the consultant to prepare budgets for these various activities supported by USTDA. Please note that the consultant is required to provide sufficient backup information regarding the source and rationale of his/her budget estimates. Such information should be sufficient to enable the USTDA staff member reviewing the budget to understand how the numbers were developed. USTDA staff will review these budgets carefully.

Two important criteria in developing budget estimates are allowability and reasonableness, both of which are supported in budget guidance contained in the various Office of Management and Budget (OMB) Circulars. A budget should reflect the *total reasonable costs* of the project that includes allowable direct costs incident to performance of the project plus the allocable portion of allowable indirect costs.

1. Costs are allowable if they are reasonable, allocable and conform to generally accepted accounting principles and practices appropriate to the particular circumstances.
2. Costs are reasonable if the nature of the amount does not exceed that which would be incurred by a prudent person in the appropriate conduct of competitive business.
3. Costs are allocable if assignable or chargeable to one or more cost objectives on the basis of relative benefits received or other equitable relationships. Allocation of costs is an issue that is especially important when determining the amount of indirect costs that will be included in the project budget.

Direct costs are those that can be identified specifically for the project. Direct costs may include:

- Compensation of staff for the time and efforts devoted specifically to the execution of the project.
 - Travel related directly to the completion of the project. This would include transportation plus living expenses including accommodations, meals and other related expenses.
 - Cost of materials acquired, consumed or expended specifically for the project.
 - Equipment and other approved capital expenditures relating directly to the project.
- NOTE: Because capital expenditures are generally for items that have a useful life longer than the duration of the feasibility study, generally speaking, the amount in this category should be minimal and specifically approved. If equipment is required, it should be leased rather than purchased, unless leasing is more costly.

- Other items of expense specifically for the project including procured or leased goods and services.

Indirect costs are those that are incurred for a common or joint purpose not benefiting only one project. By definition, they cannot be assigned specifically to a single project. Yet, it is necessary that budgets include total costs. Therefore, a methodology must be developed to allocate the indirect portion. Distribution should be on the basis of the benefits accrued to the project. In most instances, indirect costs are distributed on the basis of either direct labor or total direct costs. The methodology chosen depends on the nature of the operation and how funds are being spent.

Format

In order to facilitate the USTDA analysis of budget information, the agency requires that data and information be presented in a prescribed format (See Attachment 1). Budgets should contain sufficient detail to enable staff or others reviewing the material to understand completely not only the budgeted amounts but also the methodology and supporting information that justify the budgeted amounts. USTDA has established guidelines to help those preparing and reviewing budgets determine what is “reasonable and appropriate”. Guidelines are based in part on information contained in the Federal Acquisition Regulations and OMB Circulars as well as common practices by other federal agencies.

As a rule, it is important to remember:

1. Guidelines are not hard and fast rules. However, they should be followed wherever appropriate.
2. If a guideline cannot be followed, backup information should be provided explaining why a departure from it was necessary. It will be the responsibility of the consultant to provide all of the budgetary information that is required, as well as justify (in writing and on supporting schedules) any departures from established guidelines. USTDA staff intends to examine all information carefully and request additional, clarifying data on an as-needed basis.
3. Supplemental explanations should include:
 - Why the guidelines was not appropriate;
 - Sources of information for the estimate; and
 - How the budgeted amount was developed.

See Attachment 1, a copy of the form for reporting budget estimates. It contains a line for each of the major categories of expenditures. In some cases, additional details are required. The form should be filled out completely, including all requested supplemental information.

The remainder of this manual will provide guidelines for estimating each of the major categories of expenditures as follows:

- ***Direct labor***
- ***Travel***
- ***Other direct expenses***

Under each category of expenditure, there is a description of the category and guidelines to be used in estimating amounts.

Direct Labor

Description

Direct labor includes the wages of personnel working specifically for the project. All personnel working on the project should be accounted for including those who are not working on a full-time basis.

There are no artificial limits on direct labor paid to non-federal personnel although some federal agencies have set their own ceilings. As a result, the concept of reasonableness becomes important. “Reasonableness” is defined by OMB throughout OMB Circulars in a consistent fashion. One example is an excerpt from OMB Circular A-122, Cost Principles for Nonprofit Organizations, which states:

The cost of competition is allowable to the extent that total compensation to individual employees is reasonable for the services rendered and conforms to the established policy of the organization consistently applied to both Government and non-government activities. When the organization is predominantly engaged in activities other than those sponsored by the Government, compensation for employees on Government-sponsored work will be considered reasonable to the extent that it is consistent with that paid for similar work in the organization’s other activities.

Guidance

1. The two critical factors involved in the direct labor computation are wage rate and time. Both must be estimated accurately based on the best information that is available.
2. Direct labor is to be computed using an appropriate rate multiplied by the required time on the project for each position.
 - It will be necessary to develop reasonable estimates of staff time and labor costs.
 - Please note that the direct labor component does not include benefits as these are computed separately as a percentage of direct labor.
3. With regard to estimating staff time, the consultant shall develop a schedule that details major tasks to be accomplished, the duration of each task, staff required to complete the project, and for each person, time required for each major task. The completion of such a schedule will allow for the systematic analysis and determination of time required to complete the project. An example of such a schedule is attached (Schedule B) with instructions for completion (Attachment 2).

4. With regard to determining the labor cost component, an appropriate rate should be chosen (by position) that reflects the particular project circumstances as well as circumstances existing in the industry at the time.
 - The rate should be in line with industry averages for the specific professions that are required. Publications from industry professional associations, which provide such information, are available.
 - Differences in individual disciplines should be considered, e.g. the rate of electrical engineers may be different than those for mechanical engineers.
5. Sources should be cited for all labor rates utilized in developing the estimates. These citations should be included as an attachment to the budget table.

It must be noted that not all indirect costs are allowable. An examination of the OMB Circulars reveals that certain costs must be excluded in developing indirect rates. Following is a partial listing of some examples.

- Certain advertising costs
- Entertainment/cost of alcoholic beverages
- Unreasonable personnel costs
- Contributions and donations
- Fund raising
- Lobbying

Guidance

1. For purpose of consistency, indirect costs will be computed as a percentage of direct labor. The percentage and dollar amount should be given.

Travel

Description

Travel costs are the expenses for transportation, lodging, subsistence and related items incurred by project employees who are in travel status on official business of the organization.

Guidance

1. Travel estimates should be reasonable and appropriate, given the particular circumstances and location of the project.
2. The budget prepared should use the guidelines established by the State Department for per diem amounts by country as a guide in estimating subsistence expenses.
3. Airfare amounts should be based on standard coach fare, assuming reasonable advance time to order the tickets. If possible, estimates should assume taking advantage of discounts or fare wars, if there is a reasonable possibility that such fares will be in existence when travel actually occurs.
4. In developing budget estimates for travel, specific laws and regulations that govern costs for this activity such as the Fly America Act must be considered. It should be noted that such legislation does allow for exceptions from general rules, i.e. when non-U.S. carriers can be utilized. However, such exceptions should be carefully documented.

5. It should be noted that generally speaking, the difference in cost between business class air accommodations and less than business class is unallowable except when less than business class air accommodations are not reasonably available to meet necessary mission requirements such as where less than business class would:
 - Require circuitous routing
 - Require travel during unreasonable hours
 - Greatly increase the duration of the flight
 - Result in additional costs that would offset the transportation savings
 - Offer accommodations that are not reasonably adequate for the medical needs of the traveler

*** If the consultant determines that a business class travel upgrade would be necessary in any instance, it must be specifically documented and justified. Such explanations should be attached to the budget.

6. In estimating travel costs, consider cost-saving opportunities, i.e. where existing coach fare is less than government rate. Contractors should also consider other circumstances, i.e. where experts working on the feasibility study must stay in government-provided housing.
7. In developing the estimates, the consultant should show the basis for the budget including the following (as a separate attachment to the budget):
 - Number of trips by individual
 - Duration of each trip
 - Per diem amount used
 - Air fare

Other Direct Costs (Specify)

Description

This category includes all other costs directly associated with the project.

Guidance

1. It will be important to enumerate all costs in this category.
2. List each expense separately as follows in an attachment:
 - Description of expense
 - Amount
 - Justification/relation to project
 - Basis for projection
 - Information source

Furniture/Equipment

Description

This category includes nonexpendable personal property having a useful life of more than two years and an acquisition cost of more than \$500 per unit.

Guidance

1. Capital expenditures to purchase furniture and/or equipment are unallowable as a direct cost unless specifically justified.
2. The consultant should normally base costs on rents or leases, given particular project circumstances. If equipment is required, it should be leased rather than purchased, unless leasing is more costly.
3. If the preparer determines that purchase of equipment or furniture would be more cost effective for the U.S. government, then appropriate amounts should be included in the budget with a detailed lease vs. purchase analysis.
4. In all cases, the budget for furniture/equipment should be detailed as follows (separate schedule attached to the budget table):
 - Item
 - Description of use
 - Rental or purchase cost
 - Period of use
 - Basis for projection
 - Information source

Attachment 1

Feasibility Study Budget Format

Labor (Loaded Rates)

	<u>Person days</u>	+	<u>Unit Cost</u>	=	<u>Total Cost</u>
(Position)	_____		_____		_____
(Position)	_____		_____		_____
(Position)	_____		_____		_____
Total	_____				_____

Other Direct Costs

Travel

Transportation	_____ trips@	\$ _____ = _____
Per Diem	_____ days	\$ _____ = _____
Other (specify)		_____
Total		_____

Subcontract (specify, e.g., interpreters, legal, accounting, etc.)

U.S. Subcontracts

_____	_____
_____	_____

Host Country Subcontracts

_____	_____
_____	_____

Total

Other Costs (specify, e.g., communications, printing, etc.)

Item

_____	_____
_____	_____

Total

TOTAL BUDGET

(Note: The proposed budget may not include fee or profit.)

Attachment 2

Instructions for Completing Budgeted Labor Requirements Schedule

The purpose of this schedule is to provide a detailed breakdown of the utilization of project staff.

The contractor is to provide a table that outlines projected labor requirements (in terms of staff weeks or staff months) for the duration of the project. “Staff weeks” are to be used if the project is expected to take four months or less. If the project is projected to take more than four months, labor requirements are to be determined in terms of “staff months”. A staff week is defined as five staff days. A staff month is defined as four staff weeks.

Schedule B is an example of the table. *Note: The attachment is in terms of staff weeks.*

Part I:

Under “Task Schedule”, list each of the major tasks to be accomplished. The duration of each task is to be graphically represented. For example, in Schedule B, Task 1 is to begin in Week 1 and end in Week 4. Preparation of the Final Report begins in Week 6 and is completed in Week 8.

Under “Total Staff Weeks/Months”, put the total staff weeks/months for each major task.

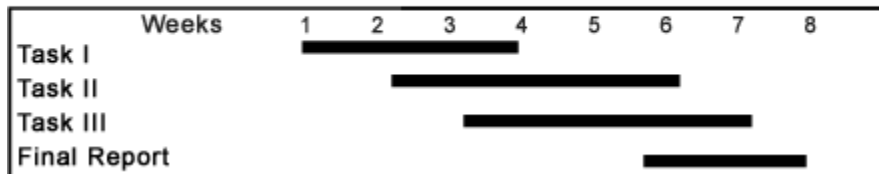
Part II:

List the job title of each person who will be working on the project. Under each position, list the Tasks to which each person will be assigned. For each Task, list the percentage of time the person will be working on the Task each week (or month). *Note: Individual totals for any one week (or month) must be 1.00.*

Under the column titled “Total staff weeks”, for each position and task, add the (horizontal) total of staff weeks. The “Individual total” for each position represents the total amount of time that position will spend working on the project.

Budgeted Labor Requirements

Task Completion Schedule



Instructions

List each major task to be performed. The duration of each task is to be graphically represented. For example, in the illustrative schedule, Task 1 is to begin in Week 1 and end in Week 4. Preparation of the Final Report begins in Week 6 and is completed in Week 8.

[illegible]

Offtake Agreements										
Prepare Economic Models								8.00		8.00
Prepare Interim Reports	4.00				4.00					8.00
Prepare Final Report	4.00	4.00	4.00	4.00	4.00	8.00				28.00
TOTAL WEEKS PER PERSON	20.00	30.00	12.00	20.00	20.00	24.00	10.00	8.00	6.00	150.00